



Department  
for Education

# **Government response to the Lords Select Committee report on Affordable Childcare (2014/15)**

**December 2015**





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**Presented to Parliament  
by the Secretary of State for Education  
by Command of Her Majesty**

**December 2015**



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# Contents

Memorandum to the House of Lords Affordable Childcare Select Committee	3
Introduction	3
Summary	3
Committee conclusions, Recommendations and Government response	6
Government policy	6
Recommendation 1	6
Recommendation 2	7
Recommendation 3	8
Home learning environment	10
Recommendation 4	10
Evaluating the free early education entitlement	10
Recommendation 5	10
Free early education places in the Private, Voluntary and Independent (PVI) sector	12
Recommendation 6	12
Under-funding of free early education places in the PVI sector and cross-subsidisation	14
Recommendation 7	14
Linking quality indicators to the delivery of free early education	15
Recommendation 8	15
Early education provision in schools	17
Recommendation 9	17
Childcare support: demand-side subsidy	19
Recommendation 10	19
Recommendation 11	20
Recommendation 12	21
Evaluating the impact of childcare support	22
Recommendation 13	22
Reducing costs of childcare to parents	23
Recommendation 14	23
Sufficiency duty	24
Recommendation 15	24

Collaboration between schools and the PVI sector	26
Recommendation 16	26
Flexible employment	27
Recommendation 17	27

# Memorandum to the House of Lords Affordable Childcare Select Committee

## Introduction

On 24 February 2015, the Affordable Childcare Select Committee published its report into the issues relating to affordable childcare. The Committee was appointed on 12 June 2014, and a call for evidence was published on 3 July 2014. The Committee also took oral evidence until the end of November 2014.

The Committee ceased to exist upon publication of its report and, although it was debated on 18 March 2015, the 2015 General Election and introduction of the new Government's Childcare Bill has seen a Government response not published until now.

## Summary

The Government welcomes the Committee's report, particularly its support for the ongoing extension of provision of the free early education entitlement in schools, and initiatives by the Government and local authorities to help providers innovate and balance cost with quality. We also welcome the Committee's support for the work being done to promote collaboration between schools and Private, Voluntary and Independent (PVI) settings (e.g. private day nurseries, sessional providers, childminders etc). Supporting parents with more quality childcare is a key priority for this Government.

The Government wants to see childcare that is good for families, and also that is good for children. Childcare in the early years must be a caring and happy experience that supports a child's development and gets children ready to thrive at school and in later life.

That is why from 2019-20, the Government will spend over £6 billion a year supporting parents with their childcare costs through childcare entitlements; Tax-Free Childcare, Universal Credit and tax credits. This includes investing over £1 billion more a year by 2019-20 on free childcare places for 2-, 3- and 4-year-olds. The Government is also doubling the free childcare entitlement from 15 hours to 30 hours a week for working families with three and four-year-olds from September 2017, worth around £5,000 per child.

Parents with young children use many different forms of childcare and it is important that the childcare market can be flexible in its response to parental choice. The Government is committed to a package of schemes that provide all families with access to childcare support, including:

- 15 hours of free early education for all three and four year olds and for around the 40% most disadvantaged two-year-olds, administered by local authorities;

- offering 30 hours of free childcare a week, worth around £5,000 a year per child, to working parents of three and four-year-olds from September 2017 (with early implementation in some areas from September 2016);
- the childcare element of working tax credits, which currently allows parents to claim up to 70% of their childcare costs (subject to a maximum cost of £175 a week for one child and £300 for 2 or more children); this will increase to 85% under Universal Credit from April 2016;
- the Tax-Free Childcare Scheme, which will support up to 2 million working families by providing up to £2,000 of childcare support per child, per year (or £4,000 for disabled children), via a simple online system;
- working parents having the right to share pay and leave in the child's first year or following a child's placement for adoption and all employees having the right to request flexible working; and
- extending shared parental leave to grandparents in due course.

This package of childcare support:

- Helps parents make the work choices that they want and need, and raises their household income;
- Provides valuable early education for all children; and
- Helps to close the gap between children from disadvantaged backgrounds and their peers.

We acknowledge that there are challenges here and that childcare is the issue facing many parents. That is why we have established our Childcare Implementation Taskforce and published our Childcare Bill to deliver 30 hours of free childcare for working parents of three- and four-year olds.

Delivery of the 30 hour entitlement will support and drive increased parental employment, enabling parents to work or to work extra hours if they wish to, thus supporting an improvement in the standard of living for parents and children. It must be affordable and provide value for money for Government at a sustainable rate for the sector. That is why the additional 15 hours will be available to families where both parents are working (or the sole parent is working in a sole parent family), with each parent earning a weekly minimum equivalent to 16 hours at national minimum wage or living wage, with a maximum income limit of £100,000 per annum (for each parent).



As set out in the Government's productivity plan 'Fixing the Foundations: Creating a more prosperous nation', there are still too many people for whom there are unfair or distorting barriers to work, including women whose high levels of skill are too often underused. By doubling the free entitlement to childcare to 30 hours a week for working parents of three- and four-year-olds, the Government is demonstrating its commitment to increasing parental employment. The benefits of such a boost to employment are clear, with a potentially huge economic prize from enabling parents, and particularly women, to play a fuller role in the economy, where they want to.

This response sets out the Government's commitment to continue to address the issues that parents face in finding and paying for childcare, and to fully acknowledge the Committee's recommendations.

**Sam Gyimah MP - Parliamentary Under Secretary of State for Childcare and Education**

**Lord Nash - Parliamentary Under Secretary of State for Schools**

## Committee conclusions, recommendations and government response

The Committee itemised a number of conclusions and made a range of recommendations in their report. The Government's response is set out in the same order as the conclusions and recommendations in the Committee's report. Wherever the word 'we' appears in the recommendations it refers to the Committee and the paragraph numbers at the end of the recommendations refer to paragraphs in the Committee's report. Wherever the word 'we' appears in the response sections, it refers to the government.

### Government policy

#### Recommendation 1

We share the concern expressed by our witnesses about the lack of coherence in the Government's stated objectives for childcare policy. Many witnesses pointed out the trade-offs necessary to achieve the separate strands of policy—improving child outcomes, narrowing the attainment gap, and facilitating parental employment. **No evidence was presented to us to suggest that the need for such trade-offs was formally acknowledged by Government. (Paragraph 25)**

**Response:** The Government is committed to early years education as a vital part of every child's development and preparation for school, through the 15 hour offer which remain in place for all 3- and 4-year-olds and the 40% most disadvantaged 2 year olds. Indeed, this Government believes that affordable and sufficient childcare is vital for a number of reasons, including:

- promoting child development for all children, including helping them to be ready for school;
- helping to narrow the gap in attainment between the most disadvantaged children and their better off peers by ensuring that all children have access to high-quality learning opportunities;
- enabling parents to work or study and support their family, thereby supporting economic growth; and
- supporting Government commitments to reducing poverty.

The Government understands that childcare is a major concern for many parents and has been listening carefully to the views of parents, frontline professionals and others on the issues. We know that for some families, the costs of childcare mean they do not feel it is worth going to work. The Government wants to make sure that where parents want to work, childcare helps them to do so – helping their child's development and helping to raise living standards for more families.

Now, the Government is going further than ever before to help with childcare costs and boosting employment, to deliver on its commitment to support hardworking families and giving people the opportunity either to work or work more hours, via the additional 15 hours of childcare for 3- and 4-year-olds of working parents.

## **Recommendation 2**

**We recommend the Government clarifies how competing aims between the policy strands are prioritised, and what mechanisms are in place between Government departments to address necessary trade-offs. (Paragraph 26)**

**Response:** A cross-Government Childcare Implementation Taskforce, co-chaired by Minister of State for Employment – The Rt Hon Priti Patel MP – and the Minister for Education and Childcare – Sam Gyimah MP, has been established.

It is working to drive forward the delivery of key Government policies which aim to support working parents with the costs of childcare- including the doubling of free childcare for working parents of three- and four-year olds to 30 hours; the delivery of Tax-Free Childcare; and Universal Credit.

The Taskforce brings together officials and Ministers from a number of key Whitehall Departments (Department for Work and Pensions, Department for Education, Cabinet Office, Department for Business Innovation and Skills, HM Treasury, HM Revenue and Customs, Department for Cities and Local Government, and Department of Health).

In addition all domestic policy is in scope of the Government's Family Test. The test asks Departments to consider five broad questions:

1. Will the policy support or limit individuals' decisions to form a family?
2. Will the policy add to pressures on families, or give families support?
3. How will the policy impact on family members' ability to play a full role in family life, e.g. with respect to work-life balance, time together, care roles?
4. Will the policy support parents who have separated in their parenting after separation?
5. How will the policy impact on those families most at risk?

The Government has published its assessment of the measures included in its Childcare Bill and this concludes that the 'policy will be positive for children and families for the following reasons: the increase in free childcare provision will support parents in making choices about going back to work and increasing their hours at work; the policy is inclusive of all three- and four-year-olds from working families; and there will be potential positive impacts on family relationships and functioning via the improvements in children's outcomes and greater financial support for parents.'

### Recommendation 3

There is a sound evidence base that indicates that high quality early education for three and four year-olds has the potential to improve outcomes for all children and especially so for the most disadvantaged. **(Paragraph 46)**

High quality early education has a crucial role to play in helping disadvantaged children to reach their full potential. For this group in particular the impact can be substantial. Greater value for money in terms of child outcomes is obtained by investing in early education for this group, than for all children. **(Paragraph 54)**

**We therefore recommend that the Government reviews the current distribution of resources within the overall budget for early education and childcare support, and consider whether the evidence supports targeting more resources at those children most likely to benefit. A tool for doing so already exists in the Early Years Pupil Premium. This represents better value than extending universal provision. The same evidence-based approach should be used to determine whether, and if so how, any new resources should be committed to the early years. (Paragraph 55)**

**Response:** This Government recognises that childcare is the issue facing many working parents, including those from a disadvantaged background. That is why we are committed to helping them with the costs of childcare by doubling the hours of free childcare available to them to 30 hours, worth around £5,000 per child per year. In addition, we are also continuing to:

- Fund 15 hours a week of free childcare for all 3- and 4-year-olds – worth around £2,500 per child, per year;
- Fund 15 hours a week of free childcare for the 40% most disadvantaged 2-year olds – worth around £2,500 per child, per year;
- Roll out the Early Years Pupil Premium, worth £50m this financial year, which is providing additional support to disadvantaged three and four-year-olds;
- Provide direct support for childcare costs of people on lower incomes - up to 70% of costs under the childcare element of working tax credits (to a maximum support of £532.29 per month for one child and £912.50 per month for two or more children), which will rise to 85% of childcare costs under Universal Credit from April 2016 (where the lone parent or both parents in a couple are in work, up to a maximum support of £646.35 per month for one child and £1108.04 per month for two or more children);
- Support for childcare costs in the form of Employer Supported Childcare - a scheme which can contribute savings of up to £55 a week from childcare vouchers. This will soon be phased out with the introduction of Tax-Free Childcare, which will support up to 2 million working families by providing up to £2,000 of childcare support per child, per year (or £4,000 for disabled children), via a simple online system; and

- Offer Discretionary Learner Support to pay for childcare for those aged 20 or over and on a further education course, as well as childcare grants for those in full-time higher education to pay for childcare costs for children under 15 (or under 17 for those with special needs).

This is a significant package of support and links with what we know about the effect of early education. The Department for Education's major new longitudinal study: Study of Early Education and Development (SEED) follows the progress of over 5,000 children from the age of two. SEED will evaluate the impact of the current early education model on child outcomes and, more specifically, the impact of providing funded early years education to two year olds from lower income families. It will also assess the extent to which Government investment in early years offers value for money.

The Department for Education published a baseline survey report of families taking part in the project on 16 July, which provides descriptive findings from the first wave of the longitudinal survey of parents. Over 5,600 families (six cohorts of children) took part in the baseline survey over the period from October 2013 to November 2014. Most children in the study were two years old at the time of the baseline interview.

The report by NatCen Social Research shows that free Government-funded childcare provision for two-year-olds has closed the gap in take-up of early years education between the most disadvantaged two-year-olds and children from wealthier backgrounds. The study also highlights differences in language skills and behavioural development according to disadvantage:

- The most disadvantaged children had less developed language skills and were reported to show lower levels of social and behavioural development than children who were not disadvantaged.
- Parents from the most disadvantaged families were less likely to engage in home learning activities with their child.

The Department for Education will publish further findings from the SEED project in due course.

The Government has also committed to introducing a fairer funding system for the entitlements, including on the issue of funding of the most disadvantaged, to help maximise funding passed on to providers at the front line and considering funding for the most disadvantaged. We will consult on proposals to do this in the New Year.

## Home learning environment

### Recommendation 4

Early education is not a magic bullet in relation to closing the attainment gap. It should be considered alongside other interventions. The role of the home learning environment is critical in a child's development. Early education needs to be accompanied by programmes to support families in providing a positive home learning environment. **We recommend the Government considers how such programmes could be established alongside the free early education entitlement. (Paragraph 56)**

**Response:** The Government is clear about the importance of the home learning environment (HLE) and will continue to encourage early years' providers to play a greater role through their outreach services in promoting the importance of positive early HLE to parents. In addition, supporting parents to provide a positive home learning environment is a vital part of fulfilling the Government's goal of improving outcomes for children, particularly those from disadvantaged backgrounds. That is why in March 2015, the government launched the 'What to Expect, When' document, which can be found on the 4Children website, aimed at supporting parents' understanding of, and involvement in, different stages of their child's development. This document was produced with parents and for parents.

## Evaluating the free early education entitlement

### Recommendation 5

There is evidence that a significant proportion of three and four year-olds would be accessing some form of early education even in the absence of the policy. This underlines the need for a robust assessment of impact. **(Paragraph 72)**

There are indications that the characteristics of early education and care which have been found to have an impact on children's outcomes, and which are especially important for the most disadvantaged children, are not present across the board in the delivery of free early education. **(Paragraph 77)**

However, the current assessment framework does not allow outcomes to be linked to specific provision. There is insufficient evidence to judge whether or not the early education entitlement on the whole is delivering improved outcomes. **(Paragraph 78)**

We are disappointed that there has been no rigorous evaluation of the free early education entitlement policy to date. While we commend the commissioning of the Study for Early Education and Development (SEED), we find that it is long over-due. There is an urgent need for a better evidence base to be developed to allow the value of the state's intervention to be ascertained. **(Paragraph 79)**

**We recommend that the Government seeks robust evidence on the effectiveness and value for money of its early education entitlement offer. (Paragraph 80)**

**Response:** Although the exact value of the benefits are subject to uncertainty, there is a wide body of evidence, including international evidence, demonstrating the positive impact of good quality early years' experience on educational performance in school.

The main source of evidence for the long-term impact of early education is from the Effective Pre-school, Primary and Secondary Education (EPPSE 3-16) Project. This is a robust, longitudinal study where a nationally representative sample of 141 pre-school settings were drawn in 1997 from six LAs. Starting at age three, these children were followed at key points in their primary and secondary education.

After controlling for effects of differences in individual, family, home-learning environment and neighbourhood characteristics, the effects were significant and predicted:

- higher total GCSE scores (ES=0.31);
- higher grades in English (ES=0.23) and Maths (ES=0.21);
- more full GCSE entries (ES=0.21), and
- a higher probability of achieving 5 A\*-Cs, including English and maths (OR=1.48);
- Beyond compulsory schooling, students who attended pre-school were more likely to go onto high academic study, taking four or more AS/A Levels.<sup>1</sup>

EPPSE evidence suggests that attending pre-school is equivalent to 41 points at GCSE.<sup>2</sup> This represents the difference between getting, for example, 7 GCSEs at grade B vs 7 at grade C.

The Government itself has published two reports on the pilot for the free entitlement for two year olds:

- **Smith, R et al (2009) Early Education Pilot for Two Year Old Children** – this report, amongst other discoveries, found that being placed in relatively high quality settings had a positive effect on a child's vocabulary, significantly improving their language ability scores at age 3.
- **Maisey, R et al (2013) The Early Education Pilot for Two Year Old Children: Age Five Follow-up** – This found that children who received early year's education in high quality settings performed somewhat better at age five than those children who attended low or adequate quality settings as part of the pilot.

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<sup>1</sup> Taggart, B et al (2015) How pre-school influences children and young people's attainment and developmental outcomes

<sup>2</sup> 6 points can be interpreted as the difference between one grade in one subject at GCSE.



The Department for Education's major new longitudinal study: Study of Early Education and Development (SEED) will follow the progress of over 5,000 children from the age of two. SEED will evaluate the impact of the current early education model on child outcomes and, more specifically, the impact of providing funded early year's education to two year olds from lower income families. It will also assess the extent to which Government investment in early years offers value for money.

The Department for Education published a baseline survey report of families taking part in the project on 16 July, which provides descriptive findings from the first wave of the longitudinal survey of parents. Over 5,600 families (six cohorts of children) took part in the baseline survey over the period from October 2013 to November 2014. Most children in the study were two years old at the time of the baseline interview.

The report by NatCen Social Research shows that free Government-funded childcare provision for two-year-olds has closed the gap in take up of early years education between the most disadvantaged two-year-olds and children from wealthier backgrounds. The study also highlights differences in language skills and behavioural development according to disadvantage:

- The most disadvantaged children had less developed language skills and were reported to show lower levels of social and behavioural development than children who were not disadvantaged.
- Parents from the most disadvantaged families were less likely to engage in home learning activities with their child.

The Department for Education will publish further findings from the SEED project in due course.

## **Free early education places in the Private, Voluntary and Independent (PVI) sector**

### **Recommendation 6**

The PVI sector is an important stakeholder in the delivery of the Government's free early education entitlement policy. 60% of three year-olds and 96% of disadvantaged two year-olds who are accessing their entitlement are doing so in a PVI setting. **(Paragraph 83)**

Staff qualifications are an important indicator of quality in the delivery of early education and care. The maintained sector employs a greater proportion of staff at a higher level of qualification than the PVI sector. Provision in the maintained sector is correspondingly found to be of higher quality on average than that in the PVI sector. **(Paragraph 91)**



**We recommend that the Government considers how the proportion of staff qualified at a higher level can be increased in the PVI sector to drive up overall quality. In line with that, we also recommend that the Government reconsiders its response to the Nutbrown Review. (Paragraph 92)**

**Response:** The Government recognises that the workforce is the main driver of quality in a setting. Alongside convenience, the quality of staff in the setting is a key factor that informs parents' choices about childcare. By improving the quality of those entering the workforce, parents can have confidence in the people supporting the learning of our youngest children. In recent years, pay across the sector has risen reflecting the rise in qualification levels among the early years workforce. In 2013 87% of the workforce held a level 3 qualification and the 2015 NDNA survey reported that 88% of settings surveyed employed a graduate. We expect qualification levels to continue to increase with the Government's workforce strategy through the introduction of Early Years Educator qualification criteria and early years Initial Teacher Training.

The Nutbrown Review recommended increasing the proportion of staff at level 3 and setting clear criteria for level 3 early years qualifications. The review also called for early years qualifications to require level 2 English and Maths as entry requirements. In response, Government developed the Early Years Educator criteria and qualifications meeting this criteria began in September 2014. From September 2014 those holding one of the new Early Years Educator qualifications must have at least a C in GSCE English and Maths (level 2) to be employed in a level 3 role.

The Nutbrown Review also recommended increasing graduate pedagogical leadership in the sector. In July 2013 NCTL consulted on and introduced the [Teachers' Standards \(Early Years\)](#) which operate in parallel with the Teachers' Standards. The first entry to the new Early Years Initial Teacher Training was September 2013. Early Years Teachers are graduate specialists in early childhood development, trained to work with babies and young children from birth to age five. Early Years Teacher trainees have to meet the same entry requirements, including the skills tests, as primary teacher trainees. Early Years Initial Teacher Training leads to the award of Early Years Teacher Status. 15,396 early years specialist graduates have been trained since 2007.

From 2016 the Government will review progression routes within the sector to determine what more can be done to enable good quality staff to maximise their potential and forge a successful career within early years. This will build on existing investments in staff training and development through the current Voluntary and Community Sector grants programme and the Teaching Schools grant, which has brought high performing schools and PVI providers together to share good practice and improve transition into school for young children.

The Government is also introducing measures to significantly increase the number of staff with paediatric first aid training, informed by a consultation that recently ended. Subject to the results of the consultation we intend to introduce a new requirement that newly qualified level 2 and level 3 staff must hold a paediatric first aid certificate in order to count in the Early Years Foundation Stage (EYFS) ratios. We also intend to launch a new voluntary quality assurance mark in 2016 to recognise those nurseries who have trained all their staff in first aid.

## **Under-funding of free early education places in the PVI sector and cross-subsidisation**

### **Recommendation 7**

Evidence suggests that the money allocated to free early education policy, and distributed by local authorities, does not cover the economic cost of delivering the free hours in the PVI sector. Many local authorities pay less to PVI settings than they do to maintained settings. While this continues there is little prospect that the sector can afford to improve quality to a level that would have more impact on child outcomes.

#### **(Paragraph 99)**

It is a false economy to fail to invest to a level sufficient to ensure high quality provision and therefore improved outcomes. **We therefore recommend that the Government reviews the current distribution of resources within the overall budget for early education and childcare support, and considers how resources are prioritised to ensure that all settings, whether in the PVI or maintained sector, are able to employ well-qualified and trained staff, to deliver the child outcomes which the policy was designed to achieve. (Paragraph 100)**

There is legitimate cause for concern about the uneven allocation of funding for free early education places in the PVI sector. **We recommend that the Government's review of resources includes a review of how local authorities discharge their duties in respect of funding free early education places in the PVI sector. (Paragraph 101)**

There is evidence that the funding shortfall in the rates offered to PVI providers for delivery of the free early education entitlement is met in some settings by cross-subsidisation from some fee-paying parents. This means that parents are subsidising themselves, or other parents, in order to benefit from the Government's flagship early education policy. **(Paragraph 106)**

The intention of the free early education policy is that 15 hours of early education per week are accessed at no cost to the parents. **We recommend that the Government reviews the current distribution of resources within the overall budget for early education and childcare support to ensure that the free early education entitlement is delivered without additional cost to parents. (Paragraph 107)**

**Response:** We agree that it is essential that the free entitlement is funded at a level which is sustainable for providers; delivers a good service for children and parents; and which is fair to the taxpayer. In order to inform decisions about the funding rate, the Government has run a 6-month-long analytical Review of the Costs of Childcare. This is the most comprehensive review of this sort that has been conducted at national level. The review is available on [GOV.UK](https://www.gov.uk).

Informed by the evidence from the Review, the Government announced on 25th November that we will be investing more than £1 billion of additional funding per year by 2019-/20 to deliver 30 hours of free childcare for working parents of 3- and 4-year-olds. Almost £300 million per year of this is to fund increases to the national average funding rate, which will increase from £5.09 to £5.39 (30p per hour) for the two-year-old entitlement; and from £4.56 to £4.88 (32p per hour) for the three- and four-year-old entitlement (the equivalent rate per carer for 3- and 4-year-olds is £39). All funding rates for three- and four-year-olds include the Early Years Pupil Premium to reflect the total government investment in the free entitlement.

The Government knows that the current funding system for the three- and four-year-old entitlement creates unfair and unjustifiable differences between areas, and between types of providers. We are committed to introducing a fairer and more transparent way of distributing funding for the entitlements through a new national funding formula for early years. Our move to a fairer allocation of funding will see more funding passed on to providers at the front-line. We will consult on proposals to do this in the new year.

The review has also shown that some business models do not make full use of the flexibility in the regulatory system – and that high-quality provision can be delivered by providers that do use this flexibility. We are clear that the funding rate will enable providers to deliver high-quality places in line with statutory requirements alongside the introduction of the new National Living Wage.

The Government has provided this substantial new investment for the funding uplift to ensure that providers have sufficient funding to deliver the free entitlement. In relation to the current entitlement, the Government has been very clear to local authorities and providers that a child's entitlement to a funded place must be genuinely free.

## **Linking quality indicators to the delivery of free early education**

### **Recommendation 8**

Research evidence has clearly defined the characteristics of early education and care required to improve child outcomes. One key indicator of quality is the level of staff qualification in a setting. **(Paragraph 64)**

Parents do not prioritise child development over other factors when seeking childcare. The market therefore offers insufficient incentives to PVI providers to promote the characteristics of early education and care found to have an impact on child outcomes. Since the market will not deliver this, and the Government needs the childcare market in order to achieve its child development objectives, the Government needs to use the levers at its disposal to drive up quality across the PVI sector. **(Paragraph 117)**

Addressing the funding of early education places in the PVI sector is vital. We have already recommended that the Government reviews the current distribution of resources within the overall budget for early education and childcare. (Paragraph 118)

More could be done to tie the delivery of early education to quality indicators, especially for disadvantaged two year-olds. The Government intends for all eligible two year-olds to access the free early education entitlement at settings rated good or outstanding by Ofsted, but currently 28% of two year-olds taking up the offer access it at settings that have not been rated good or outstanding. Since the quality of provision is critical in delivering improved child outcomes, this does not appear to be a good investment for the 40% most disadvantaged children. (Paragraph 119)

**We recommend that the delivery of the free early education entitlement hours for disadvantaged two year-olds is restricted to settings which have received a good or outstanding rating from Ofsted. This is consistent with our view that the benefit of high quality early education is greatest to disadvantaged children, and securing high quality provision for this group represents better value for money. (Paragraph 120)**

We recognise that imposing such a restriction without a period for adjustment could reduce the affordability and availability of childcare, both for early education or work purposes, and also raise concerns for the business sustainability of providers. **(Paragraph 121)**

**We therefore recommend that the Government works with the PVI sector, using the levers at its disposal—including the possible re-prioritisation of resources—to ensure that disadvantaged two year-olds access the free early education entitlement only at settings rated good or outstanding by the end of the next Parliament (2020) at the latest. (Paragraph 122)**

**Response:** The current statutory guidance reflects the Government's intention that, as far as possible, early learning for two-year-olds is delivered by providers who have achieved an overall rating of 'outstanding' or 'good' in their most recent Ofsted inspection report. As of January 2015, 85% of funded 2-year-olds were in settings rated by Ofsted as 'good' or 'outstanding' – where there is a match to the Ofsted inspection judgement. The Government wants to see further improvements in this, and believe that Ofsted and local authorities are well placed to support weaker providers to improve.

Improvements have been driven by better outcomes at re-inspection and with new registrations, as well as weaker providers leaving the market.

Ofsted has introduced a new common inspection framework (CIF) in September 2015, that will apply to registered early years settings, maintained schools and academies, non-association independent schools and further education and skills providers.

In judging the quality and standards of early years provision, Ofsted inspectors must assess the extent to which the learning and care provided by the setting meets the needs of the range of children who attend. When considering evidence of the quality of teaching, learning and assessment, inspectors' observations will include the tracking of selected children, including funded two-year-olds and other children whose circumstances may suggest they need particular intervention or support.

## Early education provision in schools

### Recommendation 9

We welcome the Government's initiative to extend provision of the free early education entitlement in schools. There are benefits to child development in light of the greater levels of highly qualified staff that schools employ and the correspondingly higher quality of provision. **(Paragraph 127)**

However, there is limited capacity for expansion in the schools sector, which is under pressure to deliver sufficient school places. The proportion of nursery places offered by schools has declined rather than expanded since the introduction of the free early education policy. **(Paragraph 128)**

The evidence indicates that the PVI sector will continue to be the majority provider of free early education places in England. There is therefore a need to engage with the sector.

**As a priority, the Government should review the allocation of resources within the early education and childcare support budget to ensure that settings in the PVI sector can employ the highly qualified and trained staff required to deliver the outcomes the policy was designed to achieve. (Paragraph 129)**

**Response:** The Government agrees it is essential that the free entitlement is funded at a level which is sustainable for providers; delivers a good service for children and parents; and which is fair to the taxpayer. In order to inform decisions about the funding rate, the Government has run a 6-month-long analytical review of the costs of providing childcare. This is the most comprehensive review of this sort that has been conducted at national level. The review is available on [GOV.UK](https://www.gov.uk).

Informed by the evidence from the Review, the Government announced on 25th November that we will be investing more than £1 billion of additional funding per year by 2019-/20 to deliver 30 hours of free childcare for working parents of 3- and 4-year-olds. Almost £300 million per year of this is to fund increases to the national average funding rate, which will increase from £5.09 to £5.39 (30p per hour) for the two-year-old entitlement; and from £4.56 to £4.88 (32 p per hour) for the three- and four-year-old entitlement (the equivalent rate per carer for 3- and 4-year-olds is £39). All funding rates for three- and four-year-olds include the Early Years Pupil Premium to reflect the total government investment in the free entitlement.

At Spending Review, alongside the increase to the rate paid to providers, the government also announced at least £50 million of capital funding to help providers who wish to expand and increase the number of places they are able to offer as well as committing to fairer funding distribution through the introduction of a new national funding formula for early years. Capital funding will also be available to create nursery provision as part of new Free Schools. We estimate that at least 4,000 places will be created this way.

The Government knows that the current funding system for the three- and four-year-old entitlement creates unfair and unjustifiable differences between areas, and between types of providers. We are committed to introducing a fairer and more transparent way of distributing funding for the entitlements through a new national funding formula for early years. Our move to a fairer allocation of funding will see more funding passed on to providers at the front-line. We will consult on proposals to do this in the new year.

Our cost estimates aim to be representative of the national picture for each provider type, but we also considered how costs are likely to vary. The Government's Review of the Cost of Childcare shows that wages for childcare workers and the mix of providers, varies across the country. We know that the current funding system creates unfair and unjustifiable differences between areas, and between types of providers. We are committed to introducing a fairer and more transparent way of distributing funding for the entitlements. We will consult on proposals to do this in the New Year.

The review has also shown that some business models do not make full use of the flexibility in the regulatory system – and that high-quality provision can be delivered by providers that do use this flexibility. The Government is clear that the funding rate will enable providers to deliver high-quality places in line with statutory requirements alongside the introduction of the new National Living Wage.

We have provided this substantial new investment for the funding uplift to ensure that providers have sufficient funding to deliver the free entitlement. In relation to the current entitlement, the Government has been very clear to local authorities and providers that a child's entitlement to a funded place must be genuinely free.



Alongside this, we will bring forward the implementation of the additional 15 hours of free childcare to September 2016 for some families – a year earlier than planned. We would like early implementation to test and examine the practical ways in which local authorities and providers can work collaboratively to expand the number of places available, to ensure they are of high quality, and to identify the level of parental demand for places.

We expect that the lessons from early implementation, along with learning from the current free entitlement, will help all local authorities and providers to better understand the market opportunities, including to stimulate growth in the local market to increase capacity in early education and childcare settings.

## Childcare support: demand-side subsidy

### Recommendation 10

There is evidence of complexity in the funding available to assist working parents with childcare costs through Working Tax Credits. The design of the childcare subsidy is confusing, and leads to erroneous claims or worse, under-claiming by those whom the subsidy is designed to assist. The complexity is added to by the different funding streams available. Payments often do not align with the way parents actually pay for childcare—which frequently requires large payments in advance. **(Paragraph 143)**

With the implementation of the Childcare Payments Act 2014—the new tax-free childcare scheme for middle and higher income earners—there will be an additional mechanism for support in the form of childcare accounts. We see potential for simplification, and a closer alignment to the way people pay for childcare, by using a single system of support.

**(Paragraph 144)**

**We recommend that the Government considers whether the new tax-free childcare scheme provides an opportunity for a single mechanism for childcare subsidies to support working parents. (Paragraph 145)**

**Response:** There are different Government funding streams for childcare support available to parents but it's important to acknowledge that these reflect the different circumstances of individual parents and families, and the needs of children. Universal Credit provides a new single system of means-tested support for working-age people. This wide ranging support includes housing and limited capability for work as well as childcare costs etc

We are working across Government to ensure that different schemes join-up, and that families are able to access and – where appropriate - move between them seamlessly. These discussions have been and are being informed by conversations with parents and providers on the implementation of the extended entitlement. We recently announced that there will be a joint online application system for Tax-Free Childcare and the extended entitlement offer. Parents will be able to apply for both Tax-Free Childcare and the extended entitlement at the same time and using the same simple system.

It makes sense for parents to be able to apply for both schemes at the same time. This will create a simple and straightforward customer journey, avoiding the need for parents to provide the same information twice. It also means that the Government can use the infrastructure already being built to create cost savings for the taxpayer. Our current focus is on delivering this support to the specified timelines so that parents can access this valuable support as soon as possible.

It is sensible to get these new schemes fully rolled out before looking at whether the online application can be extended to cover further Government products.

## **Recommendation 11**

We support the extension of childcare support under Universal Credit to 85%. The impact of this will, however, be limited by the retention of the ceiling on the costs that can be claimed. **We recommend that the Government monitors the impact of inflation on childcare costs and considers raising the ceiling on the actual childcare costs that can be claimed. (Paragraph 149)**

**Response:** The Government closely monitors childcare costs. That is why we know that this is the issue for many working parents and is why we are committed to directly helping them with the costs of childcare by doubling the hours of free childcare available to them to 30 hours, worth around £5,000 per child per year.

For low-income families, Universal Credit broadens the scope of childcare support, so unlike the current tax credits system, up to 100,000 families working a low number of hours will now newly be able to receive up to 70% support for their childcare costs. Secondly, from April 2016 the support for childcare costs in Universal Credit will increase from 70% to 85%. Together these steps will benefit up to 500,000 households once Universal Credit is fully rolled out.

In addition, the government is also continuing to:

- Fund 15 hours a week of free childcare for all 3- and 4-year-olds – worth around £2,500 per child, per year;
- Fund 15 hours a week of free childcare for the 40% most disadvantaged 2-year-olds – worth around £2,500 per child, per year;
- Roll out the Early Years Pupil Premium, worth £50m this financial year, which is providing additional support to disadvantaged three and four year olds; and
- Introduce Tax-Free Childcare, which will support up to 2 million working families by providing up to £2,000 of childcare support per child, per year (or £4,000 for disabled children), via a simple online system.



## Recommendation 12

**We further recommend that the Government gives consideration to raising the limit on the costs that can be claimed by the parents of disabled children, in recognition of the higher fees they face. (Paragraph 150)**

**Response:** The Government is committed to ensuring that all families have access to high quality, flexible and affordable childcare. Parents with disabled children should have the same choice and access to high quality childcare. Local authorities are required by law to secure free entitlement places for parents that want their child to take them up.

The Government has invested £30m in Independent Supporters to help families applying for an Education Health and Care plan and £5.3million to sector organisations under the VCS grants (£3.99m on projects which supported special educational need (SEN) reform implementation).

We recognise that for the children with the most complex needs, early years providers may need support to ensure that they can provide appropriate care. The Government understands that there are particular issues facing parents of disabled children and we are committed to working to address these. That is why due consideration will be given to SEN funding for early years as part of wider consultation on allocation and a fairer funding system in 2016. This will build on things we have already done including enabling these families to access:

**15 hours of early education per week** for three- and four-year olds, and for two-year olds where eligibility criteria includes those who have a current statement of Special Educational Need or an Education, Health and Care plan; and those who attract Disability Living Allowance. Local authorities can provide further support through the funding available to them;

**Tax-Free Childcare** – where we are providing for parents with a disabled child to access TFC for their child up to the age of 17 and have doubled the Government’s maximum annual contribution to £4,000, meaning that the policy subsidises 20% of childcare costs –up to £20,000 for disabled children;

**The childcare costs element of Universal Credit** – where financial support is currently provided for 70% of eligible childcare costs but which will increase to 85% of eligible childcare costs from April 2016, within maximum limits; and

**Disabled child addition of Universal Credit** – where, in addition to the child element, there is an additional amount within Universal Credit where there is a disabled child or qualifying young person. This has a lower rate of £126.11 and a higher rate of £367.92.

## Evaluating the impact of childcare support

### Recommendation 13

There is an insufficient evidence base to judge whether or not demand-side subsidies for childcare—the childcare element of Working Tax Credits and employer supported childcare vouchers—have made an impact on overall maternal employment rates, and consequently on returns to the Exchequer. This presents difficulties in attempting a value for money assessment of current subsidies. **(Paragraph 173)**

There has been a significant increase in the lone parent employment rate that correlates with the introduction of Working Tax Credits. There is however insufficient evidence to judge the impact of the childcare element as distinct from other elements of tax credits from which lone parents also benefitted. **(Paragraph 174)**

There is some evidence that the free early education entitlement has had small impacts on the employment rates of some mothers. This alone would not justify the free early education policy in terms of maternal employment. However, we note that free early education was not designed to facilitate parental employment; its primary objective is to promote child development. **(Paragraph 175)**

**In view of our finding that there is insufficient evidence to judge whether or not Government subsidies for childcare have made an impact on maternal employment rates, we recommend that the Government urgently establishes a better UK-specific evidence base on parental employment choices and the cost of childcare. (Paragraph 176)**

**Response:** Departments right across Government look at a range of research and analytical reports to inform their evidence base for the programmes they deliver, including parent employment choices and the cost of childcare. It is clear that many parents might want to be able to exercise the choice to work, or even work more hours, but they might face multiple barriers including business environment and culture, and costs of childcare. That is why we are committed to supporting hard-working parents with the costs of childcare.

HM Revenue and Customs and the Department for Education have commissioned a joint study to explore the feasibility of evaluating the impacts of the new Tax-Free Childcare scheme and free entitlement on the labour and childcare markets - and what methods could be used. The study's final report will be published on GOV.UK.

## Reducing costs of childcare to parents

### Recommendation 14

We understand the call for additional free hours of early education to help working parents. However, in light of the evidence of under-funding of free early education places in the PVI sector, we believe that an extension of the free early education entitlement would be unsustainable for the PVI sector at current funding levels. It would not be possible for providers to recoup the losses made on the delivery of free early education places if these were extended to 25 hours per week. **(Paragraph 154)**

Even if the funding of free early education places in the PVI sector was successfully addressed, as we recommend, we do not consider an extension to universal provision a good use of resources. **(Paragraph 155)**

We welcome initiatives by the Government and local authorities to help providers innovate and balance cost with quality. However, we believe such initiatives alone are insufficient to address the issue of cost. We have already indicated our view that the Government should reconsider the current allocation of resources within the overall early education and childcare budget to ensure that the money allocated to the policy covers the economic cost of delivery. **(Paragraph 162)**

**We recommend that the Government undertakes further analysis of the amount paid by parents for childcare, and how such expenditure is distributed across the time frame for which it is required. (Paragraph 38)**

**Response:** The Government looks at a range of internal and external evidence, including international data, and use this to inform what we know about childcare costs for parents. A key source of data are a number of the Government's own research studies to do this, including the data collected on costs to parents as part of the Department's regular Childcare and Early Years Survey of Parents.

The Government's Review of the Cost of Childcare concluded that the market functions reasonably effectively, but also identified some areas where providers could make efficiencies – for example by making greater use of statutory ratios, reducing under-occupancy, and using flexible staffing models. We want to see providers taking the steps they can to help absorb future cost pressures and we have front loaded the uplift to help providers do this.

We will be consulting on a package of reforms to improve efficiency in the sector, guarantee tax payers get value for money and a fairer funding system to ensure their money goes directly to the front line.

This Government recognises that childcare is the issue facing many working parents which is why we are committed to directly helping them with the costs of childcare by doubling the hours of free childcare available to them to 30 hours, worth around £5,000 per child per year. In addition, we are also continuing to:

- Fund 15 hours a week of free childcare for all 3- and 4-year-olds – worth around £2,500 per child, per year;
- Fund 15 hours a week of free childcare for the 40% most disadvantaged 2-year-olds – worth around £2,500 per child, per year;
- Roll out the Early Years Pupil Premium, worth £50m this financial year, which is providing additional support to disadvantaged three and four year olds;
- Provide direct support for childcare costs of people on lower incomes up to 70% of costs under the childcare element of working tax credits (to a maximum support of £532.29 per month for one child and £912.50 per month for two or more children), which will rise to 85% of childcare costs under Universal Credit from April 2016 (where the lone parent or both parents in a couple are in work, up to a maximum support of £646.35 per month for one child and £1108.04 per month for two or more children); and
- Introduce Tax-Free Childcare, which will support up to 2million working families by providing up to £2,000 of childcare support per child, per year (or £4,000 for disabled children), via a simple online system.

From 2019-20, the Government will spend over £6 billion a year supporting parents with their childcare costs, including investing over £1 billion more a year by 2019-20 on free childcare places for 2-, 3- and 4-year-olds.

## Sufficiency duty

### Recommendation 15

Local authorities have a responsibility under the Childcare Act 2006 to secure sufficient provision of childcare for children up to the age of 14, as far as practicable. There are significant gaps in provision across England, especially in rural areas, and especially for parents of disabled children. **(Paragraph 184)**

The Local Government Association suggested that securing childcare to enable parents to work was not a priority for local authorities, focusing instead on early education and intervention programmes for the under-fives. Our witnesses considered facilitating parental employment essential to tackling poverty and especially child poverty. We see potential for local authorities to consider childcare provision as part of wider strategies for local economic development and child poverty reduction. **(Paragraph 185)**

**We recommend that the Government urges local authorities to consider the role of childcare in reducing poverty, and especially child poverty, with a view to local authorities giving greater priority to sufficiency of supply for the purpose of facilitating parental employment. (Paragraph 186)**

**Response:** English local authorities have a clear statutory duty under Section 6 of the Childcare Act 2006 to secure, as far as is reasonably practicable, sufficient childcare to meet the requirements of parents in their area who require childcare in order to work or to undertake training or education to prepare for work. The Government published updated statutory guidance in September 2014 which reinforces this and states that local authorities should work to secure sufficient childcare in their areas - so that parents are able to work because childcare places are available, accessible and affordable and are delivered flexibly in a range of high quality settings.

And as part of our Childcare Bill, we have announced that the Secretary of State for Education will discharge the duty in clause 1 of the Childcare Bill ('the duty to secure 30 hours of free childcare for working parents') through all local authorities in England. Local authorities will, therefore, be required to secure childcare provision free of charge to qualifying children. This will build on the successful delivery of the existing free entitlement by local authorities. We will say more about this in statutory guidance in due course.

With these duties, we believe there is appropriate legislation for local authorities to improve the supply of childcare within their areas.

However, the Government is setting out a new approach that tackles the root causes of child poverty. Our proposals in the Welfare Reform and Work Bill introduce new measures of worklessness and educational attainment. Our published evidence review makes it clear that educational attainment is the biggest single factor in ensuring that poor children don't end up as poor adults. We know that work is the best route out of poverty, which is why we are focused on improving work incentives and ensuring people have the skills and the opportunities to move into employment.

Our new life chances measures will drive continued action on work and education, which will make the biggest difference to disadvantaged children. Of course, the reforms to childcare will play an important part in supporting this by tackling the root causes of child poverty by improving both parental employment and children's educational attainment.

We also recognise, like the Select Committee, that parents living in rural areas also face childcare challenges. Linking with our [10 point plan for boosting productivity in rural areas](#), we will work with local authorities and providers to ensure that there is sufficient high-quality childcare to meet the needs of parents in rural areas. This includes ensuring that working parents of three- and four-year-olds are able to access our 30 hours of free childcare, and we will use our early implementers from September 2016 to test provision in rural areas and inform full roll-out from September 2017.

## Collaboration between schools and the PVI sector

### Recommendation 16

Collaboration between schools and PVI settings to offer high quality free early education and full day care was welcomed by many witnesses for combining the expertise of schools with the flexibility of the PVI sector. This was particularly important for working parents. We welcome the piloting of Childcare Hubs, evaluation of which could inform a model for future collaborations. **(Paragraph 196)**

**The limited capacity for expansion in the schools sector will inevitably restrict the scope of models reliant on school settings. Nonetheless, we support the current initiatives to promote flexibility for working parents through such collaborations and recommend that they fully explore the available capacity. (Paragraph 197)**

**Response:** The Government welcomes the Committee's support for the initiatives that we have put in place. We continue to fund Childcare Hubs in 2015-16 and are working closely with 4Children to ensure that we capture learning from these and that this is shared across the sector in ways that can benefit parents and children. The hubs are a solution to the limited availability of high quality, flexible childcare that many parents need when trying to balance their work and home commitments. They consist of a variety of early years settings all working together in a local area to achieve three goals – improving quality, offering blended childcare to parents and supporting the provision of new childcare as places as required.

The Government plans to build on this work by developing a toolkit for partnership working, comprising case studies, lessons learned and practical advice on working in partnership. We also intend to give support to those interested in developing partnerships to help them to get established.

We are also encouraging partnership working as one of the ways in which schools can respond to the new parental 'right to request' that their school considers establishing before school, after school or holiday care for school aged children. And alongside this, there will be a new 'right to request' for providers to ask schools to consider allowing them to use the school's facilities for before school, after school and / or holiday care at times when the school is not using them. We will be consulting on both of these rights to request.

Our £5million teaching school investment has partnership development as a strong feature of all the delivery activity, and it was a requirement of funding that the Alliances should include private, voluntary and independent providers. We think that this approach will help providers work together locally plus help drive up quality further.



## Flexible employment

### Recommendation 17

The availability of high quality part-time and flexible employment opportunities can be as important in enabling parents to work, and to progress in their careers, as the cost of childcare. We were pleased to see that witnesses representing employers in the public and private sector were taking seriously the need for family friendly working practices.

**(Paragraph 204)**

The introduction of the right to request flexible working for all employees is an important step forward, but culture change takes time to bed in and the right remains limited to those already in employment. There is a role for central and local Government to promote family friendly working practices directly, and through their supply chains.

**We recommend that central and local Government provide leadership in driving forward family friendly working practices, amongst employers in the public and private sectors. (Paragraph 205)**

**Response:** The Government is committed to supporting working parents in balancing work and family life, and creating the right framework to support modern workplaces which operate in a fair, effective and flexible labour market. This includes reforming the rights of working parents to enable them to share pay and leave in the child's first year and extending the right to request flexible working to all employees. The Government is providing for:

- mothers and fathers to share parental leave following their child's birth or following a child's placement for adoption;
- prospective fathers, partners of mothers and the intended parents in a surrogacy arrangement to take unpaid time off work to attend antenatal appointments;
- adopters to be entitled to time off to attend adoption appointments after being matched with a child (paid if they are the primary adopter, unpaid if they are the other adopter);
- adopters, including certain intended parents who become parents through surrogacy, to have the similar entitlements to parental pay and leave as birth parents;
- adoption leave to become a day one right for employees, and the first 6 weeks of statutory adoption pay to be enhanced to 90% of salary, in the same way as statutory maternity pay;
- all employees to have the right to request for flexible working. We have also replaced the former statutory procedure through which employers considered flexible working requests, with a duty on employers to consider requests in a reasonable manner (supported by a Code of Practice and Acas guidance);

- the age limit of children whose parents qualify for unpaid parental leave to be extended from under 5 to under 18. This means more parents will qualify for unpaid parental leave; and
- plans to extend Shared Parental Leave and Pay to working grandparents. From 2018 the extension will enable eligible grandparents to share up to 50 weeks of leave and 37 weeks of pay with parents to help care for their grandchildren in the first year.









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